

Alaska Telephone Association

4341 B Street, Suite 304

Anchorage, AK 99503

(907)563-4000

FAX (907)562-3776

Duane C. Durand

President

James Rowe

Executive Director

March 10, 1997

EX PARTE OR LATE FILED

William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W.
Room 222
Washington, D.C. 20554

LOCKET FILE COPY ORIGINAL

96-45
96-262

RE: Ex Parte Communication

Dear Mr. Caton:

Last week, along with other members of the Alaska Telephone Association, I met with Commissioner Rachelle Chong and the commissioner's Legal Advisor, Daniel Gonzalez in Washington, D.C. Our primary topic of discussion was in regard to the Joint-Board's Recommended Decision on Universal Service. We expressed our concern for the impact on telephone rates that will result if universal service support is limited to single-line, primary residence service and single-line business service. We noted that residential rates will increase dramatically when business rates, that have historically contributed implicit support to the network, are readjusted under competition. We proposed that for many rural customers, residential rates will not remain affordable and that the policy of universal service will be eroded.

We also discussed and recommended consideration of the revised transition plan proposed by USTA and the Rural Coalition. Jack Rhyner shared a few pages of data that demonstrate the impact on rates if the Joint-Board's recommendations are adopted. Copies of that material is attached.

Besides myself, the following people met with Mr. Gonzalez over lunch on Wednesday, March 5:

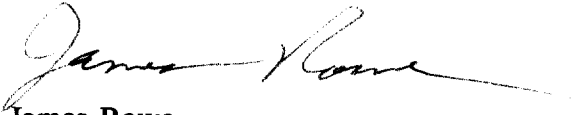
Marnie Brennan, ATU Telecommunications
Paula Eller, Yukon Telephone Company
Gordon Parker, ATU Telecommunications
Jack Rhyner, TelAlaska, Inc.

Ex Parte
Alaska Telephone Association
March 5&7, 1997

No. of Copies rec'd 0
List ABCDE

On Friday, March 7, Jack Rhyner and I met with Commissioner Chong and Mr. Gonzalez in the commissioner's office.

Very Truly Yours,



James Rowe

attachments

cc: Mindy Ginsburg
Robert Loube
Jeanine Poltronieri

Ex Parte
Alaska Telephone Association
March 5&7, 1997

Impact of Joint Board Recommendation on Universal Service

December 24, 1996

Page 2

Item 1 - Interior Telephone's current local service rates.

Local Service - Current	<u>Current Rate without SLC</u>	<u>Current Rate with SLC</u>
Residential	19.85	23.35
Single Line Business	40.00	46.00
Multi-Line Business	48.00	54.00

Item 2 - The targeted increase is the direct impact of the reduced support. Second residential lines would be at the same rate as multi-line business (no support).

Local Service with Targeted Increase resulting from reduced USF Support	<u>Rate w/o SLC</u>	<u>Rate w/ SLC</u>	<u>% Increase</u>
Residential	19.85	23.35	0%
Single Line Business	60.15	66.15	50%
Multi-Line Business	115.04	121.04	140%

Item 3 - This would be one method of diffusing the increase. These rates still contain an implicit subsidy; business subsidizing residential.

Across the Board Increase resulting from reduced USF	<u>Rate w/o SLC</u>	<u>Rate w/ SLC</u>	<u>% Increase</u>
Residential	34.78	38.28	75%
Single Line Business	70.09	76.09	75%
Multi-Line Business	84.11	90.11	75%

Item 4 - Removing the rate differential between business and residential rates, an implicit subsidy which has no cost basis, and spreading the remaining USF support across the local revenue requirement produces the equalized rates.

Equalize rates after reduction of USF Support	<u>Rate w/o SLC</u>	<u>Rate w/ SLC</u>	<u>% Increase</u>
Residential	59.06	62.56	198%
Single Line Business	59.06	65.06	48%
Multi-Line Business	59.06	65.06	23%

None of the scenarios above produce affordable rates for all classes of service.

I have pointed out only two of the many unreasoned, counter intuitive and unworkable recommendations contained in 400 plus pages of the Joint Board recommendation. I hope I have made it clear that if the FCC chooses to implement regulation based on the Joint Board recommendations they will violate not only the intent but a plain reading of section 254 (b) (1) through (6) of the Act.

**What is wrong with the Joint-Boards Recommended Final Decision on Universal Service
CC Docket No. 96- 45**

- The proposed “competitively neutral” principle is unnecessary, inappropriate and inconsistent with the express intent and the wording of Section 254 of the Act.
- Removal of universal service support for second residential lines will seriously disadvantage rural residents vis-a-vis their urban counterparts with respect to their access to, and cost of, telecommunications and information services.
- Removal of universal service support for multiple-line business will result in rate increases as great as 300 percent in some rural areas. The prospects of businesses locating in rural areas and the concomitant economic development will evaporate.
- Freezing universal service support at 1996 levels on a per-line basis is a mechanism that is insufficient, unfair and will halt or eliminate voluntary infrastructure expansions and upgrades in many rural areas.
- Requirements for new services and upgraded facilities imposed by the FCC, other federal agencies and state PUCs upon rural LECs will have to be borne by the local customer at rates they can not afford.
- The proposed mechanisms are constitutionally infirm because they jeopardize the financial integrity of regulated utilities, either by leaving them insufficient operating revenue or by impeding their ability to raise future capital.
- Contributions to the universal service fund by rural LECs, based on their interstate and perhaps intrastate revenues, will result in rural companies having insufficient revenues to maintain universal service.

ESTIMATED CONTRIBUTION TO UNIVERSAL SERVICE FUND

<u>Company Name</u>	<u>NECA Code</u>	<u>1996 Loops</u>	<u>Interstate Gross Revenues</u>	<u>Tax (Contribution) @17.5%</u>	<u>Tax Per Loop</u>	<u>Tax Per Loop Per Month</u>
Arctic Slope	613001	2,090	\$2,952,396	\$516,669	\$247.21	\$20.60
Bristol Bay	613003	1,799	\$1,264,458	\$221,280	\$123.00	\$10.25
Bush Tel	613004	790	\$1,213,309	\$212,329	\$268.77	\$22.40
Cordova	613007	2,100	\$976,709	\$170,924	\$81.39	\$6.78
Interior	613011	4,464	\$4,765,015	\$833,878	\$186.80	\$15.57
Mukluk	613016	1,047	\$1,087,293	\$190,276	\$181.73	\$15.14
OTZ	613019	2,848	\$1,459,383	\$255,392	\$89.67	\$7.47

**What is wrong with the Joint-Boards Recommended Final Decision on Universal Service
CC Docket No. 96- 45**

- The proposed “competitively neutral” principle is unnecessary, inappropriate and inconsistent with the express intent and the wording of Section 254 of the Act.
- Removal of universal service support for second residential lines will seriously disadvantage rural residents vis-a-vis their urban counterparts with respect to their access to, and cost of, telecommunications and information services.
- Removal of universal service support for multiple-line business will result in rate increases as great as 300 percent in some rural areas. The prospects of businesses locating in rural areas and the concomitant economic development will evaporate.
- Freezing universal service support at 1996 levels on a per-line basis is a mechanism that is insufficient, unfair and will halt or eliminate voluntary infrastructure expansions and upgrades in many rural areas.
- Requirements for new services and upgraded facilities imposed by the FCC, other federal agencies and state PUCs upon rural LECs will have to be borne by the local customer at rates they can not afford.
- The proposed mechanisms are constitutionally infirm because they jeopardize the financial integrity of regulated utilities, either by leaving them insufficient operating revenue or by impeding their ability to raise future capital.
- Contributions to the universal service fund by rural LECs, based on their interstate and perhaps intrastate revenues, will result in rural companies having insufficient revenues to maintain universal service.

ESTIMATED CONTRIBUTION TO UNIVERSAL SERVICE FUND

<u>Company Name</u>	<u>NECA Code</u>	<u>1996 Loops</u>	<u>Interstate Gross Revenues</u>	<u>Tax (Contribution) @17.5%</u>	<u>Tax Per Loop</u>	<u>Tax Per Loop Per Month</u>
Arctic Slope	613001	2,090	\$2,952,396	\$516,669	\$247.21	\$20.60
Bristol Bay	613003	1,799	\$1,264,458	\$221,280	\$123.00	\$10.25
Bush Tel	613004	790	\$1,213,309	\$212,329	\$268.77	\$22.40
Cordova	613007	2,100	\$976,709	\$170,924	\$81.39	\$6.78
Interior	613011	4,464	\$4,765,015	\$833,878	\$186.80	\$15.57
Mukluk	613016	1,047	\$1,087,293	\$190,276	\$181.73	\$15.14
OTZ	613019	2,848	\$1,459,383	\$255,392	\$89.67	\$7.47

What is wrong with Access Charge Reform for Small ROR LECs
CC Docket No. 96-262

- Separations changes must be studied and completed before access charge changes.
- Massive shifts of revenue requirement from the interstate to intrastate jurisdiction may be impossible to recover in some States.
- Significant reductions or fluctuation in 40-to-75 percent of a small company's revenues would disrupt and impair essential telecommunications services for rural residents and businesses.
- Does not address the undepreciated costs of ROR LECs facilities, revise depreciation lives or establish sufficient transition period to resolve the problem.
- Attempts though regulatory fiat to retroactively disapprove investments mandated by government and approved for over a decade.
- Provides no public interest reasons to justify confiscation or disallowance of LEC investments.
- Removal of the subscriber line charge cap will result in unaffordable local service rates in rural LEC serving areas.

ESTIMATED SUBSCRIBER LINE CHARGE WITHOUT CAP

<u>Company Name</u>	<u>NECA Code</u>	<u>12/96 Loops</u>	<u>Interstate Common Line</u>	<u>Com. Line Cost per Loop</u>	<u>Multi Line & Sec Line SLC</u>
Arctic Slope	613001	2,090	\$600,271	\$287	\$23.93
Bristol Bay	613003	1,799	\$301,868	\$168	\$13.98
Bush Tel	613004	790	\$552,230	\$699	\$58.25
Cordova	613007	2,100	\$251,645	\$120	\$9.99
Interior	613011	4,464	\$1,172,475	\$263	\$21.89
Mukluk	613016	1,047	\$317,449	\$303	\$25.27
OTZ	613019	2,848	\$445,537	\$156	\$13.04

Cost Recovery per Line

Switched Access

Interior
Telephone

Mukluk
Telephone

Average
Class A
Telco

Interstate

Billed to End User

Subscriber Line Charge

4.49

3.63

3.79 Weighted Average

Access Charges Billed to IXC's

CCL

3.98

1.01

1.98

Local Switching/other TS/TIC

26.53

6.80

3.79

Transport Facility/Information/Misc

0.00

0.00

1.28

Interstate Revenue Billed to IXCs

30.51

7.80

7.05

Interstate Support (recovered through NECA)

DEM Weighting

17.31

21.95

0.00

Universal Service Support

28.51

42.91

0.00

LTS & access costs in excess of NECA access rates

19.43

21.14

0.00

Interstate Support Billed to NECA

65.26

86.00

0.00 Interstate Support required

Total Interstate Cost Recovery

100.26

97.43

10.85

Intrastate Revenue

Basic Local Exchange Service

31.31

17.82

17.10

Intrastate Access

20.88

39.32

3.90

Other Intrastate Services

0.00

0.00

15.02 Including IntraLATA Toll

Total Intrastate Revenue

52.18

57.15

36.02

Total Regulated Cost

Recovery per line per month

152.44

154.58

46.87